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Economic Conditions
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General Business Conditions.

THE expectations indulged in during the summer that the state of depression which was affecting certain of the industries would disappear with the opening of the fall season have not been realized; on the contrary, business is generally receding and there is no longer room for doubt that the country has passed the crest of the post-war boom, and begun the process of readjustment upon a lower level of values. Prices have been declining rather than recovering since the first of September, the movement has been spreading to lines not affected before, the industries have been slowing down and unemployment is reaching proportions which will affect consumption. The decline in the prices of farm products has impaired the purchasing power of the farming population, and affected its psychological attitude toward expenditures. The effect of these developments is to give quite a different prospect from that which a few months ago was expected to develop as the fall season advanced.

The summer-like temperatures which have prevailed over the country in October no doubt have affected the retail dry goods and clothing trades and have been a factor in the paralysis which exists in the wholesale markets and throughout the textile industries. The latter have been depressed since unseasonable weather conditions last spring first disturbed the trade.

Wholesale Prices Generally Lower.

The price reductions of last spring in the retail trade were significant of a decline in consumers' demand which has been the master force in the whole movement, but the disturbance of producers' and wholesalers' prices has now gone much beyond the retail reductions. Raw materials, notably cotton, wool, hides, rubber, hard woods, dyestuffs, chemicals, sulphur, etc., have suffered severe reductions, as a result of stagnation existing in the industries in which they are used. The products of these industries are all under pressure, with prices yielding, and in some lines very radical reductions have been made. Food products as a rule are decidedly lower, especially the grains, sugar, coffee, rice, tea, cocoa, potatoes and other vegetables and fruits of universal production. Canned salmon and vegetables are 15 to 25 per cent lower. Meats have had a heavy decline from top prices of 1919 and dairy products are lower. Silver, copper, lead and zinc are almost or quite at pre-war prices. The iron and steel industry, which has been very busy since the strike, shows signs of a slackening demand and of price concessions in all departments, but on the whole is well sustained. Pig iron is off $5 to $10 per ton since September first. The building industry is checked by the prevailing high costs, from which there has been little relief as yet. The coal industry is paying very high wages but production is at a record rate and supplies promise to be ample, which probably will result in lower prices than have been prevailing since the strike last year exhausted the reserves. The railroads have been clearing up the congestion which recently existed, and have not yet shown any material diminution of traffic. Travel is very heavy. Ocean traffic is light and freights depressed. Immigration is very heavy, arrivals at the port of New York last month numbering about 85,000.

Culmination of the Post-War Boom.

The fundamental reasons for the check which has been given to trade over the world are not hard to name. A temporary stimulus was given to business immediately after the close of the war. There was a relaxation of restrictions upon private expenditures and governmental expenditures were still on a very large scale. The revival of trade between countries was a factor. The rise of prices, demoralization of exchange rates, delay in the re-establishment of industry in parts of Europe, poverty of European peoples, war between Poland and Russia, social unrest and threats of revolution have been unfavorable to industrial improvements. Great Britain sold quantities of goods to the Continent last year, for which the materials came from the United States, but such sales could not continue if the Continent did not develop ability to make payment. In any event the extravagant prices of war time and the period immediately following were bound to be reduced.

Where Did It Begin?

The first symptom of weakness was in Asia. Japan suffered a financial and industrial crisis in March, from which it has not recovered, and which seriously affected the silk industry in this country. In the fiscal year ended June 30, 1917, the United States imported 33,868,885 pounds of raw silk valued at about $4.60 per pound and in the fiscal year 1919-20 the imports were 47,133,713 pounds, valued at about $9.25 per pound. At the highest point, last midwinter, the top grade sold at $18 per pound, now quoted at about $7.00, with rumors of transactions at lower prices and little doing in the market.

The decline in the value of silver, which began last March, has had an important effect upon exchange rates between Asia and other parts of the world. The trade balance in favor of Asia has declined, which reduced the demand for silver, as that metal is a common medium of settlement with China and India. Moreover the supply of silver in the markets has increased, both by a gain of production in Mexico and by the melting of quantities of silver coin which had been driven out of circulation in Europe by paper currency. Last Winter silver bullion sold in the American market as high as $1.38 per fine ounce; at present, although silver of domestic production is taken by the Treasury under the Pittman act at $1.00 per ounce, foreign silver is selling at about 80 cents. This decline has curtailed the buying power of China and other countries that are to any extent on a silver basis, and in this way affected the market for cotton goods supplied by England, and British imports of raw cotton from this country.

The United States Consul at Karachi, in a recent dispatch given out by the Department of Commerce, states that at the high point for rupee exchange $100 worth of American goods cost 225 rupees while at this time $100 worth of American goods is costing an Indian importer 300 rupees.

Decline in Cotton and Woolen Goods.

The break in cotton and woolen goods in this country came in May and under the immediate influence of slow trade, due in part to a backward Spring, but this coincided with the broader influence which was world-wide, having its origin in the inability of the population to take the goods at the high prices prevailing. The price of raw cotton was sustained for a time by the outlook for a poor crop, and on July 23 touched 43¾ cents for July delivery, the high record price since the Civil War. In August, with the crop estimates increased, the price fell to 26¼ cents, and last month fell to 18½ for October delivery, and the May option sold as low as 17½ cents. Since then the price has rallied to about 22 cents for spot delivery. In the last three months have occurred the Russian drive into Poland, the threat of more war, a threat of a general strike in England and of a social revolution in Italy, all having an influence to disturb business calculations and deter operators from planning for production. We quote from the Manchester (England) Guardian reviewing the general trade outlook at the beginning of October:

> "Signs are multiplying that a period of industrial depression is approaching. It will, of course, be with us at once if the miners' ballot, which begins today, shows a majority adverse to the policy advocated by Mr. Smillie. But even if a miners' strike is averted, there are many other causes for anxiety. The cotton trade is stagnant, and the woolen is little if any better. In other great industries the outlook is also gloomy, though present conditions are not so bad as in the staple trades of Lancashire and the West Riding. The world's demand for goods is certainly not yet satisfied. The fact is, however, that people in other lands cannot purchase the goods they require at the prices that prevail at present. The unsolved problem of the moment, therefore, is how to lower prices without inflicting disaster on manufacturers in this country who have, both at home and abroad, large stocks of goods the prices of which are partly based on the cost of raw materials purchased many months ago at higher prices than prevail today."

A New York business man in the textile trade, just returned from the Colombia, is quoted in the New York Times of October 31 as saying that the largest merchandising house in Barranquilla had stated to him that 100 per cent of their customers were demanding indefinite extensions of credit, and adding:

> Coffee planters are reported as saying that they intend to let the present crop, which matures next month, rot on the trees rather than harvest it to sell at prevailing prices, which, they claim, would mean loss. A measure is before the Colombian Congress at the present time to legalize a 100 per cent. increase in import duties, in an effort to raise money and to protect Colombian merchants who have laid in stocks at the high prices which prevailed until the slump three months ago.
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> The reports from the banks are that drafts remain unpaid and the banks cannot meet their obligations for this reason. In some cases the banks refuse to protest drafts in the fear that they will not only lose their accounts, but precipitate a panic.

This describes conditions existing in other countries of South America as well as Colombia. Reports of this character and of the quotation from the Manchester Guardian, and of the advice quoted above from Karachi, show that similar conditions in this country are not to be regarded as peculiar to this country or due to domestic conditions. They are not chargeable to banking policies in the United States, or to market manipulations, but to world-wide influence. If this is understood generally our people will be able to adapt themselves to existing conditions more successfully than if they accept mistaken ideas about the situation.

In the five months beginning with last May, the exports of cotton from this country have compared with the corresponding months of last year as follows:

	1920 lbs.	1919 lbs.
May	186,583,000	228,264,000
June	122,932,000	351,108,000
July	107,444,000	270,744,000
August	74,767,000	242,614,000
September	119,131,556	119,091,600

The exports of September were largely purchased in earlier months.

The Domestic Textile Industry.

Up to this time the textile industry in this country has been going from bad to worse, which is no more than it usually does after a slump is recognized as under way and until confidence in values is restored on some basis.

The general line of cotton piece goods has been reduced fully one-half since the decline began, which brings prices down to about where they were in the slump following the armistice, in February and March, 1919. The selling has been led by jobbers and other secondary holders who have found themselves overstocked and considered it good policy to move the goods. As is usually the case at the end of a boom period, it develops that there were more goods in the hands of middlemen than anybody had supposed.

The producers have followed the market, endeavoring to get business to keep the mills running, but most of them have either suspended operations entirely or are running on short time. Up to this time merchants have been buying for filling-in purposes only.

The situation in yarns, underwear and knit goods is similar to that in the cloth markets.

Wool and Clothing.

The wool market has been stagnant since last May and hardly enough is doing to supply trustworthy quotations. This year's clip in this country remains for the most part in the hands of the growers. Wool is in an uncertain position, but prices are unquestionably down and all holders have been losers.

The percentage of idle wool machinery as reported to the United States Chamber of Commerce on September 1 was larger than at any time in the last six years, excepting February and March, 1919. The percentage was given as about 35 per cent in looms devoted to women's dress goods and a little above 50 per cent in machinery devoted to men's wear, indicating that trade has fallen off more in men's than in women's goods.

A reduction of 15 to 20 per cent upon cloth prices was put into effect at the openings in September, but the clothing trades have not been satisfied with these concessions. The time for making up goods for the fall season has gone, and that trade apparently has had all the goods it needed. Interest now centers in goods for next Spring, and the clothing manufacturers are holding off for lower prices.

Hides, Leather and Shoes.

If there is any commodity from which inflation has been eliminated it is hides, which are down flat to pre-war prices, and leather prices have followed closely. That the packers and tanners have taken losses running into the millions is illustrated by the recent report of the Central Leather Company upon its operations in the first three months of this year, which showed a loss of $7,213,415, due to shrinkage in values in its inventories.

The decline in hides and leather was a warning of which the public took notice with the result that shoe sales at retail fell off, and shoe manufacturers went through a siege of cancellations similar to that experienced by the woolen goods manufacturers. The industry is running very light at this time, with the public holding off for cheaper shoes.

Export trade in leather comprises about 16 per cent of the total business, and although it has suffered it has held its own quite as well as the domestic demand. Up to August exports of shoes had held up better than the domestic sales. The following figures show the export movement in leather and shoes and imports of hides and skins:

Total Exports of Leather

8 mos. ending August, 1920	$90,373,044
8 mos. ending August, 1919	139,636,594
August, 1920	6,058,896
August, 1919	23,544,890

Total Exports of Shoes

	Pairs	
8 mos. ending August, 1920	11,912,119	$47,627,020
8 mos. ending August, 1919	13,972,757	46,744,640
August, 1920	1,045,630	4,005,426
August, 1919	1,719,418	5,799,349

Total Imports of Hides and Skins

	Pounds	
8 mos. ending August, 1920	402,772,854	$211,594,242
8 mos. ending August, 1919	414,744,120	157,483,871
August, 1920	35,127,547	17,707,633
August, 1919	74,474,944	30,790,244

Elements of Uncertainty.

There are two important elements of uncertainty in prices at this time. One is the labor situation. Price declines in the industries most affected have gone as far as they can at the expense of the profits of operators and as far as they ought to at the expense of producers of the raw materials. Cotton goods are being sold in some instances below present production costs, upon the belief that wage costs will be reduced. There is a widespread belief that wage earners who have had large advances in the last five years will have to make a contribution to the general cause of lower living costs. At this time, when everything is unsettled and everybody is looking for the bottom level, where it will be safe to operate freely, this question of wages continually intrudes itself. Already instances are announced where groups of wage-earners have voluntarily offered to accept

reductions of 10, 15 or 20 per cent to enable industries to continue in operation. The opinion is common that the movement will become general, if the consumer's strike continues. That is to say, if events demonstrate that prices must be lowered in order to distribute the products of the industries, wages eventually will be adjusted accordingly.

The Retailer's Position.

The second element of uncertainty for the time being is the attitude of the retailer, who is generally maintaining prices in order to avoid taking losses on stocks purchased at the old prices. The reduced prices, as yet, have been only partially passed on to consumers, and the reports of slackening trade over the country indicate that the public is cognizant to the situation. The effort to avoid losses is natural enough, but it is checking trade, reducing production, causing unemployment and creating much dissatisfaction. Moreover, it is a very doubtful policy from the standpoint of the merchant. He doesn't like to devote his fall season to taking losses, but the sagacious dealer in a time like this will turn his stock over as fast as he can replace the goods at lower prices. By so doing he is at least getting a dealer's profit to apply on his losses. Sooner or later there will be a leader in every community who will see that his interest is served by this policy.

The Buyer's Turn.

The markets have been in the seller's favor for a long time, but the buyer has regained the position of advantage. Sellers are again competing for his favor and on the whole it is a more healthful situation when the buyer has a choice. All sorts of wasteful practices have developed and been tolerated because the cost could be passed on to the buyer and consumer. They will be searched out and eliminated. Nobody is as keen after economies as the man who must develop them to save himself from loss. Theoretical complaints are made to the effect that goods pass through too many hands between the producer and consumer, and that there are too many parasites upon industry. These complaints for the most part are made without intimate knowledge of the complicated modern business organization, but such parasites flourish in the boom periods and are hunted out as profits disappear.

The substitution of time work for piece work in the industries has been one cause of high costs to which no doubt early attention will be given. Good wages for honest work should be the rule, but less opportunity for shirkers.

There will be a lot of compensations for a turn in the times which compels everybody to scrutinize costs more closely.

Farm Products.

Farm products suffered a heavy decline last month, but prices have improved during the last week, with a little better foreign news and a feeling that some of the declines had been overdone. The drop in wheat from the middle of September to the middle of October was about 40 cents per bushel, carrying the December delivery at Chicago below $1.98 and the March delivery below $1.90. Upon these figures the market had made a gain at the end of October of about eight or ten cents on both deliveries. Corn for December delivery broke through $1 at Chicago in the latter part of September, and has since fallen to about 82 cents. Oats have lost three or four cents in the past month, closing with the December delivery at Chicago at about 54 cents. The Spring deliveries of both corn and oats have resumed their normal position above the spot and early deliveries.

Live stock markets have been lower during the month, and especially hogs, which are around the lowest prices reached since our entrance into the war.

The exports of meat and dairy products for the month of September, 1919, were $61,316,940 and for September, 1920, $32,174,599. For the first nine months of 1919, these exports were $966,346,925 and for the corresponding months of 1920, $414,579,369. It is needless to say that this falling off in the foreign demand has an influence upon prices.

The Wheat Situation.

The pre-war importations of wheat and rye of Western Europe were about 650,000,000 bushels, but consumption has been materially reduced. Upon this, Mr. Broomhall, editor of the Corn Trade News, the English authority, has recently said:

> We have on several occasions called attention to the wonderful reduction in the consumption that can be effected by the compulsory lengthening of milling and the free use of substitutes. This has been peculiarly illustrated by the requirements of France. The wheat crop of the present year there is estimated at 237,000,000 bus. and the consumptive requirements are estimated at 344,000,000 if milled at 70 per cent extraction. If the extraction be increased to 80 per cent the requirements could be reduced to 312,000,000. A further reduction can be made by adding 10 to 20 per cent of rye or corn flour, bringing down the requirements to 272,000,000 so that only 40,000,000 bus. will have to be imported.

The Market Reporter, of the Bureau of Markets, Washington, in its issue of October 23rd, last, calculates that consumption in Europe last year was 26 per cent below the pre-war requirements. The Market Reporter on June 5, 1920, estimated the exportable surplus of wheat and rye in the exporting countries, for the crop year 1919-20, at 20,200,000 tons of wheat and rye, or about 666,733,000 bushels.

Europe's production has been higher this year than last.

Mr. Broomhall's estimate of the wheat importations of Europe in the crop year ending next June is 520,000,000 bushels, and of other importing countries 40,000,000 bushels; in all 560,000,000 bushels. Bradstreet's estimates that the

United States can spare 250,000,000 bushels in the crop year ending July 1, 1921. The Canadian surplus is estimated all the way from 160,000,000 bushels to 200,000,000 bushels, which would give at least 410,000,000 from North America.

Australia will harvest in December, and a letter to us from the well-known house of John Paxton & Co., Sydney, dated September 15, says of the situation there:

> Australia is this year having a truly wonderful season. The rainfall is far in excess of the average of the months during which it has descended. The only risk now is, that we may have too much of it during the Spring months (Spring in the Southern hemisphere), to the injury of the wheat crop, but if it now clears up, and leaves us with a month or six weeks of our usual bright, dry early Summer conditions, there is quite a probability of the wheat crop reaching 140,000,000 bushels over all the Australian States. Naturally, the rainfall has assured a bountiful supply of feed for live stock, so that the Pastoral industry is now in a much more hopeful condition than it was 12 months ago. Unfortunately, the stock losses have been so heavy that there is likely to be a great deal more grass all over the country than there will be stock to devour it.

Rollin E. Smith's "Wheatfields and Markets of the World" gives Australia's requirements for bread and seed as 28,000,000 to 30,000,000 bushels, so that with no allowance for carry-over from last year or to the next year the Paxton estimate would give 110,000,000 bushels for export. The lowest recent estimate upon the surplus we have seen is 80,000,000 bushels.

The Argentine crop is also harvested in December and is likewise very promising at this time. Estimates upon the exportable surplus range from 100,000,000 to 150,000,000 bushels, the latest we have is 112,000,000. Altogether the above figures, taking Canada, Argentina and Australia at the lowest estimates, would give about the same amount of exportable surplus available for Europe as was imported last year. This is without taking account of India, where the harvest is in March. The "Market Reporter" issued by the Department of Agriculture, Washington, D. C., in its issue of October 23 says that the India crop of last March yielded a surplus over home requirements of 75,000,000 bushels, according to official estimates, and a press dispatch states that the government has released 400,000 tons, equivalent to 14,920,000 bushels, for export. The remainder presumably is being held to await new crop development, as the India crop always is an uncertain one.

The annual average exports of wheat from Argentina and Australia in the five years ended with 1913 were 145,000,000 bushels. Upon this basis, and considering that the crop of all the countries in the Southern Hemisphere are subject to sudden changes from weather and pest conditions, it would take a close calculation to find wheat enough. This was the basis of calculations until recently. But the promising condition of the crops in Argentina and Australia, now nearing harvest, the prospective release of a supply from India, and finally a reduction in the estimate of Europe's requirements have altered the situation and in our opinion have been an important factor in the price decline which has occurred.

United States' Official Calculation.

The article referred to above, which appeared in the "Market Reporter," the official publication of the United States Bureau of Markets, is an exhaustive and important one, covering the European situation and the prospective surplus from exporting countries. We advise all parties who are interested enough to study the situation to send for a copy. It calculates the total imports of wheat and rye by Europe last year at only about 440,000,000 bushels, which is much less than other calculations have made it. It calculates the increased production of all cereals in Europe this year at about 10,000,000 tons, or 454,000,000 bushels, which would seem to indicate that unless consumption was on a larger scale Europe would not need anything from outside. Europe, however, has already imported 170,000,000 bushels in this crop year from North America alone. The Market Reporter says:

> In attempting to ascertain the probable world supply and demand for breadstuffs, the consumption of only 13 European countries has been considered.
> * * *
> However, it has been shown that the total European consumption of wheat and rye, for 1919 was 43,500,000 tons, or 26 per cent below pre-war average. This year Europe (13 countries) has a yield of 45,600,000 tons, compared with 33,100,000 tons for the same countries last year. Europe will, of course, use her own increased production this year and as much imported grain as she can afford to buy. It can hardly be expected that imports this year will be larger than for 1919, and hence the figure 13,100,000 tons is given as the tentative importation, based on 1919 imports.

This estimate of 13,100,000 tons comes to about 440,000,000 bushels, but includes rye, of which this country exported about 40,000,000 bushels to Europe last year.

Altogether these figures do not indicate a shortage of wheat, but rather a substantial surplus.

These are the best estimates we can find upon supplies and the probable needs of Europe. It is certain that Europe will not take any more than barely enough to cover its necessities, and it must be remembered that the price of wheat is still so far above normal that nobody will want to carry over any into the next crop year. Therefore supplies will be likely to come out quite fully and dealers in both wheat and flour will buy with a view to working off stocks before July 1, 1921. It is to be considered that in calculating the future there is always the possibility that Russia may come back as an exporter.

The big crops of corn and oats also have a bearing upon the price of wheat. This year's crop of corn is the largest ever grown in this country and there was a considerable carry-

over in farmers' hands. The present price of corn looks low as compared with the prices of the last year, but the markets are influenced by future probabilities rather than past conditions.

Competition of Canadian Wheat.

We are asked if the importations of wheat from Canada have caused the drop of prices in this country. We do not see that these importations can be an important factor, in view of the fact that both countries are on an exporting basis and competing with each other in Europe. Of course the Canadian crop is a factor in prices everywhere, but if it was all sent to Liverpool it would displace the same amount of our wheat that it does here. If it was burned or submarined, it would be put out of the way, but so long as it is offered in common markets with ours the particular market is as unimportant as whether Dakota wheat is sold in Minneapolis or Chicago. One hundred and seventy million bushels of wheat, inclusive of flour, have been exported from North America to Europe since the first of July, of which more than 90 per cent was produced in the United States. This country and Canada are practically one source of supply for Europe, and if Canadian wheat was prevented from coming into our markets it would go to Europe direct.

Cotton Situation.

The situation as to cotton is different in some respects. The price has fallen more than that of wheat, and the statistical position is stronger. The crop of this year is less than the consumption of the last year, which was not nearly as large as it would have been if the people of the world could have bought the cotton goods they wanted. The cotton crop is more dependent than any other crop we grow upon world markets, and it has been depressed by the threatening conditions which have existed in Europe during the past six months. The price during the coming year depends upon order and buying power in Europe. There is much to be said in favor of the policy of marketing the crop gradually, for world markets are in no condition to take it rapidly. Sentiment throughout the cotton trades is too pessimistic at the present time to favor the buying of cotton against future demands for goods.

A World Movement.

The agricultural districts have been much disturbed by the price declines, and the idea prevails that somebody is to blame for the situation. It is well for everybody to be on his guard against coming to conclusions of this kind from a one-sided view of the situation. Everybody has keen appreciation of his own troubles but knows comparatively little about the troubles of other people, but trouble is plentiful everywhere. If everyone will try to keep his temper and be reasonable and helpful it will be better for all. The general movement of commodities refutes the idea of manipulation. This world is too big to be readily managed, and yet so small that what happens to any part of it may affect every other part. It is a mistake to say that the farm products of this country alone have declined, or that farmers alone have lost money. Coffee and sugar have declined more than wheat and corn, and cotton cloth as much as raw cotton. The tendency is general.

It is true that this year's crops have been grown at a high level of costs, but costs do not determine selling prices when the prospect is that future costs will be less. Prices now are discounting future conditions.

There is not a farmer in North Dakota who will buy a machine this Fall at cost if he believes he can buy one next year for less money. The newspapers have reported that the management of the new Brotherhood National Bank of Cleveland, owned by the Brotherhood of Locomotive Engineers, who had contemplated the erection of a bank edifice, has decided to postpone the construction until costs are lower. The whole business world has postponed buying for the same reason, and it is better policy for each group to accept the situation without complaint than to quarrel with all the rest about what cannot be helped.

Carrying the Crops.

It has been well said that the portion of all crops which is not wanted for consumption until months in the future must be carried somewhere, and that it may as well be carried in the hands of the farmers as elsewhere. Indeed, that is the best place for it, if the farmer can afford to take the risk of further declines, and always subject to the obligation which rests upon the farmer as well as everyone else, to pay his current debts with reasonable promptness. The whole business structure rests upon the expectation that men will do as they agree, and that the flow of payments in trade will be kept moving. Anything like a general suspension of the payments which fall due in the regular course of business, compelling merchants and others to default upon their obligations, would make the whole situation so much worse that the farmers along with other people would be worse off because of it. Nobody is justified in refusing to meet his obligations when they are due because it will cause him inconvenience or require a sacrifice, for his doing so is likely to hold up a string of payments and cause inconvenience and sacrifice to many people. Everybody should do his part to maintain conditions as near normal as possible. A farmers' conference in Washington last week resolved in favor of selling to meet the regular demands for consumption, and this is putting it very well.

The Banker's Place in the Situation.

It probably will take less credit to carry the deferred supply in the hands of the farmers than in the hands of dealers, and that is the best place for it while conditions are unsettled. The fact must not be lost sight of, however, that regardless of present costs of production, and regardless of anybody's opinions, no one really knows what future prices will be, and it is no part of the business of a banker to take market risks. He has no right to do it. He is not handling his own funds, but trust funds, which he has agreed to return to the owners, and which are left with him on the express understanding that he will not take chances with them. The whole situation would fall into chaos if the public gained the idea that bankers were taking market risks. Whoever wants to carry the crops must expect to take the risks that belong with ownership.

It should be borne in mind in considering the banker's attitude toward loans that he is interested in making all the loans he can with safety. His income is from loans, and his lending power is in the deposits which the public keeps with him. His deposits go up and down with the prosperity of the community in which he lives. There is every reason why the banker, especially in regions where the chief interest is agriculture, should do everything in his power to aid the farmer in obtaining the largest possible results from his labors, and so far as we are advised he fully expects to do this.

The Outlook.

It was inevitable that this slump would come whenever rising prices reached the top and the public became satisfied that the future course of prices would be downward rather than upward. It came prematurely in 1919, because the influences favorable to a spurt of private expenditures at that time were too strong to be held in check. It is better that the check should come now than a year later. Although the reactionary swing has gone farther than most people expected it to, there is no reason for extreme pessimism about it. Undoubtedly some prices have gone too low already. It is unreasonable to suppose that prices are going back at this time to pre-war levels, and where they do it is safe to say that the things are too cheap and can be bought to advantage.

Grounds for Confidence.

There are good reasons for confidently believing that this country is not going into a long period of depression. Such experiences in the past always have followed long periods of internal development, including extensive construction work, such as railroad-building, town-building, etc. Our periods of prosperity and credit expansion have been of this character, and it has usually happened that the movement has overrun the needs of the country at the time, and a period of growth was required afterward to bring the country up to its new facilities. This was the case in 1873 and 1893, the two most important crises of our recent history. In the period following 1893 recovery was delayed by the controversy over the money question.

The boom period which has been responsible for the existing expansion of credit and high prices was not due to internal development or construction work; on the contrary it interfered with normal development and improvements, and the facilities of the country are behind its needs. Never before was there so much work in sight needing to be done, or so many opportunities in the world outside. The immediate problem is that of price readjustment. It is not a case of exhaustion or of waiting to grow up to investments that have been made. The new work would not go forward upon the level of costs created by the war, and regarded as abnormal and temporary.

Although the buying power of the agricultural districts has been affected by the fall of farm products the fact remains that the yield of these products is the largest on record. The yield is an important factor in the decline and in some crops it will compensate in large part for the decline. In corn and oats the farmer sells the surplus after providing for the keep of his work animals and other live stock; on a short crop the surplus is small, and may not bring much even at a high price, but on a large crop all of the surplus is for sale. If wheat is low all farmers will pay less for flour, and if all goods come down the farmers' loss of purchasing power will be correspondingly less. The decline in farm products has been so sudden as to give a shock, but measured by prices in the past still gives great buying power.

Foreign Exchange as a Factor.

In this connection, however, we would sound a note of warning which we have often sounded before. The foreign exchanges have been working lower, and if they should break seriously enough to compel a still greater curtailment of exports the effect will be to pile up commodities in the home market and depress prices. Who can doubt that the markets would be in better condition today if Great Britain and France had not been obliged to pay the $500,000,000 joint loan in New York on October 15th. They paid with a renewal on the part of France of $100,000,000, but if they had not paid $400,000,000 they would have had that much more with which to buy our products. People cannot always pay their debts and buy more goods at the same time. We say and think that we cannot float large foreign loans, but the decline in the value of farm products and resulting disturbance to industry in the last two months has been enough to float more loans than Europe has even thought of asking.

The $100,000,000 foreign banking corporation under the Edge law projected by the American Bankers' Association and the other corporations proposed under that act are very much needed, and should be put through promptly. We hope that this will be done now that the need has become more apparent.

Few Failures.

The reserve resources and recuperative powers of the country are far greater than at any previous time when a check of this kind was experienced. The credit situation is stronger. The banking situation is wholly different, which in itself is a factor of great importance. In view of the extent of the price declines the comparatively few cases of embarrassment among business concerns of importance is significant.

There is no gainsaying that the fall season has been seriously demoralized by the unsettlement which has developed. The buying power of a great many people in the aggregate has been impaired, measuring their ability by the prices that have been prevailing. The general feeling that these prices could not be sustained has been thoroughly confirmed; the public will have nothing to do with them. When the general level is reduced, so that a common basis for trade is restored, conditions are such that business will be quickly resumed. That cannot be accomplished now for the fall season, but if business men will set about getting their houses in order for Spring trade on a regular basis the situation should be well stabilized by that time and the field cleared for recovery and a long period of prosperity.

Banking Conditions.

The New York time money market is practically unchanged, eight per cent being the ruling rate upon commercial paper and loans not governed by the usuary law. The banks have been on the lookout for some signs of liquidation, but none have appeared as yet. They are borrowing heavily of the Federal Reserve bank and the latter continues to be debtor to other Reserve banks. Liquidation over the country generally will have to go far enough to enable the member banks to reduce their loans at the Reserve banks materially before reduction in interest rates can be expected. There is no early prospect of that. Call money rates have fluctuated from 6 to 10 per cent.

The loans of 822 member banks reporting to the Federal Reserve Board were at their highest point on October 15, when the aggregate of loans and investments was $17,283,996,000, against $17,188,604,000 the week before, and $17,073,065,000 on April 16, last, six months ago. The aggregate earning assets of the twelve Federal Reserve Banks on Otcober 15 were $3,421,976,000,000, the highest in the history of the system. These figures compare with $3,158,570,000 on April 16, and give answer to the charge that the Federal Reserve system has been contracting credits.

The Inflation of Credit.

The most conclusive answer to this charge and to all of the inflationists criticisms of recent banking policy is furnished by the figures made public by the Comptroller of the Currency on October 15, for the loans and discounts of all banks in the United States, excepting the Reserve banks.

Once every year the Comptroller compiles a statement showing the condition of all banks, including those doing business under state charters. His statement given out on the 15th ult. is of June 30, 1920, and shows that on that date the total of loans and discounts of all national and state banks, trust companies, savings banks and reporting private banks was $30,891,693,000, an increase of $5,805,736,000 over June 30, 1919.

These are startling figures, and they do not show all of the increase, for while the rediscounts of member banks with the Federal Reserve banks are included, the open-market purchases and other holdings of the Reserve banks are not. The Secretary of the Treasury, addressing the American Bankers Convention a few days later stated that the loans and discounts of all banks had increased *since the armistice* in the round sum of *seven billions of dollars*.

As the total loans and discounts of these banks on June 30, 1917, (the date nearest to our entrance into the war for which figures are obtainable) was $20,641,427,253, it appears that the increase since the armistice *has been twice as much as while we were at war*.

These figures are offered for the consideration of the persons who have been talking about the contraction of credit or who hold that credit should have been granted more freely. Of course the former are without standing, for there has been no contraction, and as for the latter the facts and the argument are heavily against them.

Inflation Does Not Increase Production.

Upon what theory can it be urged that the country has needed so much more credit to handle its business in the period following the armistice than during the war? The physical volume of business has not increased; production has not increased; the output of coal has not increased; the tonnage handled by the railroads has not increased. The only reason that can be given is that wages and prices have been advancing, and every student of monetary science who has any standing as an authority will agree that an increase of the amount of money in circulation, or of bank credit circu-

lating as money, will have of itself the effect of raising prices. If the medium of exchange is increased in volume without a corresponding increase in the amount of commodities to be handled the medium will be depreciated as we have seen repeatedly in our national experience.

The phenomena of tight money does not prove that there is a lack of money to do the business of the country. Tight money will result from rising prices and from a demand for goods in excess of the supply, causing a competition among buyers, who run up prices on each other. That is precisely the situation which existed in this country last year.

Effect of Competitive Demands.

This country last year was trying to do more business than it was capable of doing. It was trying to make up all the arrears of war-time forthwith. There was more work to be done than there were workers to do it, and greater demands upon the industries than they had the equipment and facilities to meet. In a situation of this kind the scarcity is exaggerated by the efforts of buyers to make purchases in different quarters and through diffent agencies. Every producer and dealer is persuaded that he can do more business if he is given more credit to work with, but if they are all given more credit to work with, the effect is not to increase production, which is already at capacity, but simply to finance their scramble for labor and materials, with the result that wages and prices are driven higher.

There can be no relief from tight money so long as prices continue to rise, and no end to rising prices so long as more credit is being granted, until the situation eventually gets out of balance, consumption somewhere is checked, confidence is disturbed and the whole artificial structure comes down in a crash.

The Old Story of Debts and Prices.

Every one who is familiar with the course of credit expansion and collapse knows that an abnormally large volume of bank credit and an abnormally high level of prices together create a dangerous situation. Every business crisis ever experienced in this country or elsewhere has come under those conditions. And they have all come in the face of a clamorous demand for more credit to "increase production" and for other "legitimate business." The trouble always is that rising prices do not go on rising forever; sooner or later they turn into falling prices, which result in shrinking assets while the indebtedness against those assets does not shrink at all. The inflationists are always wanting facilities for creating more indebtedness, and the fact that an increase of seven billions since the armistice has not satisfied them should be ample proof that their wants are insatiable.

Inflation Outside of Reserve Banks.

The Federal Reserve Board was aware of the danger inherent in continued expansion, but delayed action upon interest rates until November, 1919, although it had uttered warnings before. On October 31, 1919, the total earning assets of the Federal Reserve banks were $2,824,156,000, and on January 2, 1920, $3,181,808,000. Since then there has been a steady effort to hold the situation in check, perhaps all that wisely could be done on the part of the Reserve banks, but the above figures show that with 30,000 independent banking institutions in this country a vast expansion of credit has been possible under the Reserve act and amendments without the direct aid of the Reserve banks. Of the $5,800,000,000 increase in bank loans since June 30, 1919, only $818,237,000 has been through the facilities of the Reserve banks, and of the $10,250,265,747 increase since June 30, 1917, only $2,777,083,000 has been through them. The remainder has been handled by the individual banks, but made possible by the reduction of reserve requirements provided for in the Reserve act, and by the concentration of reserves and currency-issuing powers of the central banks. Evidently deflation will be a long ways from complete when the Reserve banks are deflated.

The Inflation Period Has Culminated.

It is safe to say that the danger of further inflation is over for the present. The decline of prices will put an end to the appeals for more credit for the purpose of buying things and starting things. People do not care to borrow money to buy land, speculate, build extensions or go into new enterprises when prices are falling. They will proceed now to earn and save and apply the proceeds on their debts. Therefore it may be expected that as liquidation proceeds money will tend to become easier, until the strain which has been felt since 1917 is quite removed. Of course it is going to take a larger turnover of products to pay debts than under high prices.

It is a significant fact that for the first time in the history of this country a period of expansion has culminated and prices have turned decisively downward without a banking panic. Heretofore the turn has been always accompanied and the downward pace accelerated by a collapse of bank credit. This time the situation instead of being aggravated by the efforts of thousands of banks to reduce their loans and increase their cash reserves, will be supported by an adequate banking sysytem. Business houses entitled to credit will continue to reecive it. Valuations will necessarily have to undergo revision, but the whole financial situation is altogether different from that which has existed at any other time of business reaction. The business community is protected from the shock, alarm and stress which result from a general contraction of credit. Not only has there been none up to

this time, but there will be none; liquidation will follow its natural course as shaped by conditions in the markets.

It is a principle of modern banking that the time to restrict credits is when prices are rising and credit expansion is under way, and that after the turn has been definitely made, when business is known to be receding, it is sound policy to grant credit freely to concerns of assured strength, to maintain stability and the orderly processes of trade.

The Fundamentals of Civilized Society.

In his reply to the request of some of the anthracite coal miners that he should set aside the findings of the late arbitration commission in that industry, President Wilson said that "by all the laws of honor upon which civilization rests the pledge given by the miners to stick by the award should be fulfilled." He stated the case very effectively and it is well in considering these questions into which class prejudices easily enter to get down to fundamentals and consider frankly the state of mutual dependence which exists throughout modern society.

The great demand of the time is for a more abundant supply of the comforts and good things of life for the masses of the people. It is the desire and hope of all right-minded people that the standard of living shall be constantly raised. On the other hand the growth of population which is steadily proceeding tends to make it more difficult to maintain the present standard of living, to say nothing about raising it. The facts sustaining this statement are within the observation of all. Our best and most available lands are occupied. Agricultural experts tell us that a large part of these lands are being robbed of their fertility; the farmers are not putting back the elements that are being taken out, and if this policy is continued production will decline. The most easily-worked supplies of coal and other minerals are taken first, and already the average cost of mineral production is increasing. Our stores of mineral oil outside of the shales will not last over 20 or 25 years, and the supply from shales will be more costly. The situation as to timber is familiar, but has been succinctly stated recently by Colonel W. B. Greeley, of the United States Forestry Service, as follows:

> "Three-fifths of the original supply of timber in the United States is gone and every year we are taking out of our forests four times the amount of wood that we are growing in them. Moreover, the availability of the remaining timber is rapidly becoming less. Half of the remaining timber of continental United States is in the three States bordering the Pacific Ocean. And the true index of timber depletion is not the quantity that is left but its availability."

These stores of natural wealth, which were in preparation for thousands of years, have a vital relation to the welfare of the population. Everything that ministers to physical comfort and well being is provided by the work of our industries upon these natural products. We cannot get along without these products and as the supply is diminishing while the demand is increasing there seems to be no escape from the conclusion that the cost will continue to increase. Certainly it will do so unless the methods of production are so improved as to reduce the labor costs.

Society Must Be Interdependent.

It is true that there are parts of the world where the natural resources are as yet practically untouched, but they will be opened up slowly and only as higher prices stimulate their development. The fact that they are yet in reserve does not essentially alter the proposition that society instead of advancing to higher standards of comfort is destined to suffer under the steady pressure of increasing scarcity, except as by research and invention and by the higher and more effective organization of industry this baleful tendency is overcome.

In short, society must keep its attention fixed constantly upon the means of increasing production. It cannot afford to disregard the incentives which, acting generally upon the population, have the effect of stimulating production. It cannot afford to neglect the advantages afforded by highly developed industrial organization, and by specialization, and the use of power and machinery.

Modern Organization Requires Higher Ethical Development.

This higher organization of society, while affording great possibilities in increased production, will not realize them unless the workers in all the various occupations understand the system, appreciate the benefits they personally gain from it and recognize that they have certain responsibilities and obligations under it. The individual who devotes himself to any single trade or profession for the purpose of acquiring skill, does so upon the understanding that he will be able to exchange his services for the products or services of others upon such fair terms as would naturally result from the voluntary and free distribution of the population in the various occupations. The whole scheme of organized society is dependent upon its effectiveness in mutual service. It is a co-operative system. It requires that the population shall not only have a certain degree of intellectual development but a certain degree of moral or ethical development. The people must understand the binding force of mutual obligations. If any group, having obtained control of a given trade or occupation, the services of which are necessary to the maintenace of life or comfort throughout the community, proposes to suddenly discontinue such service unless certain conditions of its own making are complied with, the fundamental conditions of the whole social compact are violated.

Shall We Go Back to the State of Life in China?

If demands of this kind are to be commonly made, mutual dependence will become dangerous and impracticable. It will have to be abandoned and society will have to go back to simpler living, longer hours of labor, and more primitive conditions, like those of China, or it will have to organize to meet such contingencies by means of trained volunteer forces, supported by the power of public authority. Either of these remedies of course, would greatly reduce the effectiveness of industry, to the injury of all.

Any system or policy that puts it in the power of a few ignorantly or wantonly to do vast injury to the community, or to subject the community to their arbitrary will, is intolerable. In the nature of things it cannot endure, and those who attempt to impose it upon others will fail and lose by so doing.

The work of a coal miner requires knowledge gained by experience and training. The coal mines, as a rule, cannot be operated by workers picked up in an emergency from other occupations. The public expects to pay the coal miners a reasonable compensation for their labor and for whatever hardships and risks the work may involve. There can be no infringement of the right of an individual miner to abandon the occupation whenever he can better himself or for any reason desires to make a change, but the idea that the miners as a body may take advantage of the necessities of the community to dictate national policies that are properly within the authority of the regular law-making bodies, as the miners of Great Britain recently threatened to do, or dictate the terms for mining coal, is unjustifiable upon any principle of democratic society or of co-operative social relations.

Conservative Influences in Labor Ranks.

Notwithstanding the increase of radical agitation both in this country and Europe, with occasional ill-advised actions into which workmen are drawn by revolutionary leaders, there is good reason for confidence that a knowledge of the principles set forth above is permeating the masses of the people. There is a growing appreciation among both workmen and managers of business of the rights of the public. The "one big union" idea which has fascinated some of the working people because it seemed to offer the power to bring all society to its knees is not convincing on close examination, for the reason that nine out of ten of those who would be brought to their knees would be of the working class. The threat of a coal strike in England, backed by a strike of railway employes and other big unions has been very menacing, but the most responsible labor leaders who saw the common disaster that would result labored earnestly to prevent it. The study of the social problem that is being given by the labor leaders makes it more improbable with every year that passes that any revolutionary movement will succeed in western Europe or America. And it should not be thought for a moment that the labor leaders have been the only people who needed to develop the vision of common social interests. There has been lamentable ignorance upon the subject in all classes.

Farmers' Organizations.

The farmers' organizations north and south are very active in increasing their membership and developing plans for obtaining greater control over the prices of farm products. In the south the American Cotton Association has been pledging its members to hold cotton for 40 cents per pound up to November 1st, with an additional one cent per pound for each month thereafter, and to plant 33⅓ per cent of the cotton land in foodstuffs next year. There is good reason for believing that it is sound policy for the southern farmers to diversify their crops more than they have done in the past, at least to the extent of growing the food required for home consumption. Moreover, it is doubtless good policy for the cotton growers to market their products slowly this season, on account of the depressed state of the cotton goods market. The wool growers have been forced to follow the same policy in order to prevent the market from being glutted. There can be no criticism of a proper adjustment of supplies to demands.

Too Early to Plan Curtailment.

A word of caution, however, against hasty action may be in order. The crop is not yet harvested and conditions may undergo much change before planting time next spring. Governor Harding, of the Federal Reserve Board, gave good advice when he suggested that the South take steps to finance the marketing of its products in the countries of Europe which need it but are without the means of making purchases. The world needs all the cotton that can be grown; the problem is to get the industries of all countries into operation and effect such an exchange of products as will enable it to be sold. If the American Cotton Association will assume leadership in such a constructive effort it will render great service and no doubt the whole country will give aid.

It is too early to pass resolutions for crop curtailment, and what good will it do to plant less cotton and more wheat or corn when the producers of these grains are claiming to be as bad off as the producers of cotton? Will it help the general situation, or put the wage-earners in position to work for less wages, to have cotton lands or wheat lands stand idle or grow up to weeds? If everybody will do in this emergency what is best for the common good he will find his own interest served by the policy.

Marketing Problems.

In the north the American Farm Bureau Association has created a committee upon marketing of seventeen members, to make a study of the marketing of farm products and report. It is proposed to make an extended investigation, but although there is evidently much sentiment in favor of an elaborate plan of operations no hasty action is likely to be taken. It is well to have the inquiry made, for if conducted with good judgment it will clear up a good many misunderstandings. Moreover, if the farmers can develop a co-operative system of marketing that will accomplish economies and narrow the margin between producer and consumer they will render a great social service. In the great co-operative organization by which our wants of all kinds are supplied, the more the people of each branch of industry know about all the other industries, and about all the methods by which the exchanges are made the better. Every individual who plays any part in the system should expect to give an account of himself and show that he renders adequate service for the pay he receives. If any so-called services can be dispensed with, or any middlemen can be eliminated, out they should go, Society has been doing that from the beginning and will continue to do it.

No General Over-Production.

It is pertinent, however, to mention one danger which attaches to the organization of groups. The policy which seems to promise the most direct results is usually that of curtailing production. The people in every line of business usually think that there is too much of their commodity on the market. The workmen in every trade think there are too many in their trade. The natural suggestion is to limit the supply—cut down production, reduce the hours of labor, restrict the number of apprentices permitted to learn the trade, etc.

There is such a thing, of course, as over-production of a given commodity. It is conceivably possible that too many men may learn a given trade. The industrial organization may get out of balance it not infrequently does, but it is important to bear in mind that there never has been a general over-production of the necessaries and comforts of life. On the whole there has always been under-production; the problem which society is seeking to solve is that of increasing production. Therefore every plan which proposes to benefit a given group by limiting production is properly under suspicion. Since we supply our wants mainly by exchanging products with each other, it is evident that in limiting production for the purpose of raising prices we impair the purchasing power of our customers. If the workers in all the industries cut down production in order to raise prices, there will be less of everything for everybody. Prices will be high, but they will benefit nobody and be a burden to everybody. Progress does not lie that way.

The Principles of Social Co-operation.

The true principles of social co-operation never have been set forth more clearly and effectively than in the resolutions adopted by the 400 delegates from 28 states who formed the American Farm Bureau Federation last March, when they said in part:

"We hereby speak out that the world may hear our denunciation of radicalism in every form. We stand for one flag, the stars and stripes, and we will have no other flag before us. We stand for law and order and deplore the present-day tendency to disrespect fundamental laws and constituted authority.

"The world war resulted in a great waste of labor. Increased production is essential to national well being. We view with great concern the tendency to unduly shorten the hours of labor everywhere with resulting decreased production and individual efficiency. We stand for higher individual efficiency and believe that every citizen, regardless of his station in life, should have open to him every incentive for the development of his full power. Therefore, we condemn any system or practice which tends to set up the mediocre man as the standard in any class or group and hereby declare that it is un-American to fix by rule or law the accomplishments or limitations of any men or women within our gates.

"Let us return to the true American principle that every citizen is entitled to and should receive remuneration for his services in proportion to his energy, efficiency and responsibility. In determining a compensation, we believe that the result of the day's work, rather than the hours thereof, should be of paramount importance.

"We pledge the farmers of America to the largest possible production consistent with good husbandry, with a view of relieving the word's dire necessities and invite the workers of all other industries to join us in this spirit of service."

The occupational organizations may serve a good purpose; they surely will when conducted in the spirit of the above declarations, but the class spirit must be guarded against. Such organizations must be controlled by the purpose to improve general social conditions. The scheme of guild organization, under which each trade or group would control production in its line and fix its own compensation, is fundamentally wrong. It would divide society up into watertight compartments, and develop antagonism and contention instead of cooperation.

The best regulation of compensation in all the occupations is free movement between occupations and the free exercise of individual judgment. The interests of the entire body of the population should be kept in common to the greatest possible extent.

Cooperation and Reciprocity.

The whole social order is founded upon the principle of cooperation and reciprocity. If each person will comprehend that the market for his own products or services is dependent upon the ability of others to buy them, he will understand that the largest degree of prosperity for any group or class is obtainable in a state of general prosperity, when production and the exchanges everywhere are well-balanced.

It is a reasonable expectation that a readjustment of wages and prices must follow the war period, and it is apparent that this readjustment has begun. The farmers have already taken a

heavy shrinkage in the prices of their products. They think it hard that their turn should come among the first, but although the farmer is not a plutocrat, he is a proprietor, an operator upon his own account, and people who have capital enough to be proprietors, be they large or small, are in better position to take the brunt of a readjustment than the wage-earners of the towns. It is impossible to ask the latter to accept wage-reductions until a reduction in living costs has taken place, and farm products are the leading factor in the cost of living.

On the other hand, the price of farm products having declined, it becomes a matter of common justice and also an essential factor in the maintenance of employment for the wage-earning class that the prices of what the farmer must buy shall come down in like proportions. Are they going to do so? That is the critical question at this time.

The Wage Question.

Every one is entitled to have his own opinion of the present industrial situation. A very influential labor leader has declared that labor must "resist, resist and resist to the last" every attempt to reduce wages, and this is the position which organized labor is understood to occupy. The idea doubtless is that having won the advanced position represented by the present wage-level they intend to hold it at all hazards. It is, however, a mistaken idea, for if prices generally are falling and other people in the industrial circle are taking smaller pay for their services or products the workers who refuse to accept any wage reductions are really asking for more pay. Instead of being on the defensive, trying to hold their own, they are attempting to improve their position at the expense of other workers.

Keeping Industry in Balance.

Furthermore, they will be attempting the impossible. They overlook the interdependence of industry. Consider the relations between manufactured products and farm products. The market for farm products is largely in the towns and the market for the town industries is largely on the farms. About one-third of the people of this country live on the farm. The exchanges are made by means of money payments, but unless farm products are going to buy about as many town products in the future as heretofore, it does not require a professor of political economy to see that there will be a falling off in the consumption of town products and in the demand for labor to make them. And if 25 per cent of the labor so employed should find itself walking the streets because trade had fallen off, it will be up to the labor leader to explain the advantages of that situation over a moderate reduction of wages which would have kept the farm and factory in balance, with better living conditions for everybody. Goods are not going to be made unless they can be distributed, and distribution cannot occur except upon a fair basis of exchange for all products. Wages have been advancing for five years under the influence of the law of supply and demand, which was also advancing the prices of farm and other products. It will be a serious mistake for the labor leaders to think that they accomplished all this and that they have control of the situation regardless of the law of supply and demand.

Opposing Economic Law.

At its last annual convention held a few months ago at Montreal, the American Federation of Labor recognizing the probability of a slackening in the demand for labor proposed as a remedy that the work-day should be reduced to six hours. This would artificially maintain the prices of factory products at or near the war level, while farm products would be taking the natural decline. Of course the farmers are not going to stand for that, and ought not to. If they adopt the same policy of restricting the hours of labor and volume of product, prices will be gloriously high all around, and everybody will have plenty of leisure, but there will be very much less to eat and to wear and less of all the things which the people are wanting. Class organization will have run itself into the ground. The gains in living conditions which have been accomplished by the development of machinery and the application of capital to industry will have been sacrificed.

Organized labor can do much for its members and for the community if it works in harmony with the economic law, but will do nothing but mischief if it works against that law. It does not pay anybody to spend his energies in trying to make water run up hill, and anyone who wants to accomplish something in this world will find that there is an advantage in working with the natural forces and for the general interests rather than in opposition to them.

Foreign Trade and Exchange.

Foreign trade is dull so far as new business is concerned, and our relations with South America are practically paralyzed by the fall in the value of South American products and the consequent derangement of the exchange. Although trade with Europe has been embarrassed for the past year by the high premium on the dollar our exchanges with South America have been on a fairly even basis until recently and much of the time with the dollar at a little disadvantage in purchasing power. But the fall in coffee, wool, hides and cocoa to a point where they are next to unsaleable has taken from those countries the ability to buy of the United States. The lower grades of Argentine wool if saleable at all are below pre-war prices.

Cocoa has sold within the last week in this market as low as five cents per pound, although it has been as high as 28 cents within the last two years and a year ago was about 18 or 20 cents. Coffee is down 60 or 65 per cent from the high price.

Hides have sold below pre-war prices but show some symptoms of recovery. These figures signify that little is doing in imports from South America, and exports to those countries are at a stand-still.

The Argentine government has exhausted the fund of credit which it accumulated here during the war, and exchange on New York in Buenos Aires is at a premium of approximately 24 per cent. In consequence of the situation collections throughout South America are very slow.

The drop in sugar has caused a crisis in Cuba, and for the protection of the banking situation there the government has declared a moratorium on bank deposits until December 1st. Negotiations are under way in this market for loans for Cuba, Brazil and several other countries to relieve the situation.

September Exports and Imports.

The September statement of exports and imports makes a surprisingly good showing in view of the known conditions, for which cotton, wheat and mineral oil were largely responsible. Both cotton and wheat exports in the month are understood to include considerable amounts purchased earlier in the season. The figures by principal groups are as follows:

	Month of September 1920.	1919.
Groups-Imports:		
Crude materials for use in manufacturing	$102,354	$201,548
Foodstuffs in crude condition and food animals	38,140	62,927
Foodstuffs partly or wholly m'f'd	82,885	53,428
Manufactures for further use in manufacturing	63,589	59,011
Manufactures ready for consumption	73,755	54,481
Miscellaneous	2,940	4,050
Total	$363,666	$435,448
Exports.		
Crude materials for use in manufacturing	$119,176	$89,341
Foodstuffs in crude condition and food animals	108,174	66,944
Foodstuffs partly or wholly m'f'd	58,742	124,520
Manufactures for further use in manufacturing	68,075	92,505
Manufactures ready for consumption	240,420	206,620
Miscellaneous	482	754
Total domestic exports	$595,072	$580,689
Foreign merchandise exported	10,218	14,524
Total exports	$605,291	$595,214

The usual table of exchange rates follows:

	Unit Value	Rate in cents Sept. 27	Rate in cents Oct. 27	Change from par	Depreciation
Canada	1.00	.9020	.9050	.0950	9.50
Germany	.2382	.0163	.0141	.2241	94.08
Italy	.1930	.0420	.0375	.1555	80.57
Belgium	.1930	.0706	.0675	.1255	65.03
France	.1930	.0668	.0635	.1295	67.10
England	4.8665	3.4925	3.49	1.3765	28.29
Switzerland	.1930	.1608	.1575	.0355	18.39
Holland	.4020	.3108	.3060	.0960	23.88
Denmark	.2680	.1375	.1375	.1305	48.69
Norway	.2680	.1370	.1375	.1305	48.69
Sweden	.2680	.2002	.1950	.0730	27.24
Spain	.1930	.1470	.1395	.0535	27.72
Argentine	.9648	.8500	.80	.1648	17.08
Japan	.4985	.5140	.5125	*.0140	2.81

* Premium.

Call Loan Interest Rates.

There is no need for acrimony in the discussion over interest rates on call loans. The Comptroller of the Currency has pronounced opinions upon the subject and feels that it is his duty to make them public and nobody ought to complain because a public official does what he believes to be his duty. The effect of high or low interest rates, however, is an economic question over which persons may honestly differ, and therefore a temperate discussion of the subject is perfectly proper, no matter which side of the argument one may take, assuming that a sincere effort is made to present relevant facts and throw light on the subject.

Call Loan Market.

It is said that in no other money market of the world do call money rates fluctuate as widely or reach as high a figure as in New York. If this is true, as we believe it is, it is not conclusive, because there is no other call money market like that of New York. There is no other market in which any such an amount of money is loaned on call. It is dependent upon the stock market and nowhere else is there such a stock market as here. The call money market owes its development also to the character of our banking system before the reserve system was established; banking reserves were largely employed in this manner. Under these exceptional conditions a body of lenders and a body of borrowers have been developed who find that it suits them to do business on this plan. It is a voluntary arrangement on both sides, entered upon with a full knowledge of the conditions, there is no law against it, and so they have gone on dealing with each other from year to year. Dealings of this kind have not developed in like magnitude elsewhere for the reasons named above and because borrowers elsewhere are timid about commitments at call, and afraid that the fluctuations might be wider there than they are here, which probably would be the case unless a very large supply of funds was always available, and from numerous sources.

Use of Call Loans.

The money loaned on call in New York for the most part is used in carrying stocks or bonds on margins. Those who have a proper understanding of the functions of the Stock Exchange know that it renders an important public service in furnishing a ready market for securities, thus assisting in their distribution and facilitating the finding of capital for useful enterprises. This function is promoted by the presence here of a fund of capital available for loans on securities. We do not deprecate or undervalue this employment of capital, but it sometimes occurs that more capital is so employed than is good for the market itself or for other interests with which it may compete for funds. We seem to remember, with-

out recalling dates or persons, that criticism upon this score has been directed at Wall Street, but we do not recall that even the people who are criticising high rates upon call loans have ever classed marginal trading as a "vital industry."

While the government loans were being floated during the war the public authorities frowned upon the absorption of funds in Stock Exchange operations, and properly. There was not the same need as in normal times for the services of the Exchange as a distributor, for comparatively few new securities were being brought out. Moreover it was desirable that speculation should be held in check. After the armistice this restraint was relaxed and in the booming prosperity of last year trading upon the Stock Exchange became very active and loans upon listed collateral increased rapidly until they became a matter of concern to the bankers. The pressure for loans was great and increasing from all quarters. There was not enough credit to go around to all applicants and as between the Stock Exchange and the industries the latter were given the preference. The rise of stocks under the influence of speculation was considered a dangerous symptom. It was not only absorbing credit needed elsewhere, but the marginal accounts were an element of weakness in the whole financial situation. A panic starting on the Stock Exchange might do much damage outside, in view of the extended state of loans.

Withdrawal of Funds.

The banks began to reduce the call loans. Interior banks, as their local demands increased, gradually withdrew the funds they had in the New York market. With rising costs, corporations which had been lending in the call market found themselves in need of the funds and withdrew them in part. This process continued until the "street loans," as they are called, were reduced from about $1,500,000,000 to approximately one-half that amount.

Was the course pursued by the banks a justifiable and wholesome policy or not? It was not liked in "the street" at the time, but today "the street" realizes that it was good policy for all concerned. "The street" is better off for having liquidated last Fall and Winter than it would have been with more credit to use. It beat the industries to it, saved money and has had no responsibility or blame for bringing on the reaction.

The Official Showing.

Comptroller Williams in the abstract of his annual report recently given out says:

> The reports of all national banks of the United States as of June 30, 1920, as recently analyzed, show an enormous expansion in their holdings of mercantile paper and of discounts made on the strength of one or more endorsements, and in loans made upon warehouse receipts, etc., and a marked reduction in money loaned on bonds and stocks.

This describes the change which the bankers accomplished during the year. How was this withdrawal of funds from Stock Exchange use conducted? There are two ways of reducing the volume of loans: One is by peremptory action, refusing to renew, requiring debtors to repay forthwith; the other is by raising the interest rate. The former is a violent method liable to cause serious disturbance. The latter gives the borrower time to adopt a policy and make new arrangements. It was in the public interest that less capital should be employed in the call market and it was necessary that borrowers should adapt their affairs to this policy, but it was advantageous to them to be allowed to borrow from day to day even on high rates until they had adjusted themselves to the change. If they paid 25 per cent, they paid 1/365th of 25 per cent for one day, and were under no obligations to borrow for a day longer than they wanted to.

A reduction of the amount of money available inevitably causes a rise of rates unless the demand falls off. The borrowers themselves advance the rates by bidding to attract funds to take the place of what has been withdrawn.

A conference of farmers in session at Washington is reported to have passed a resolution condemning the New York banks for lending at such high rates because the effect was to attract money from the country where it was needed for loans to farmers. They did not understand that it was the withdrawal of funds for that purpose which made the high rates, or that if the New York banks had refused to lend at the rates named the rates would have gone still higher and the temptation to country bankers have been thereby increased.

The "renewal" rate upon call loans is the rate at which loans stand over to the next day, and is the rate which most of the call loans bear at any time. We give below the average renewal rate for each month beginning with October, 1919, and for comparison give another column showing average rates for 90 day loans on mixed collateral over the same period. There is no fixed rate on time loans corresponding to the renewal rate, but we have taken averages which are approximately correct. Attention is invited to the fact that from October to February, while loans were being reduced in volume, the call rate ruled above the time rate, and that since February the call rate has been below the time rate:

Average Rates of Interest.

	Call loans, Renewal rate	Time loans, Mixed collateral
October, 1919	7.42	5.98
November, 1919	10.43	6.30
December, 1919	8.09	6.30
January, 1920	8.61	6.88
February, 1920	9.86	7.98
March, 1920	8.13	8.48
April, 1920	7.43	8.33
May, 1920	7.09	8.00
June, 1920	7.50	8.00
July, 1920	8.39	8.35
August, 1920	7.26	8.70
September, 1920	7.06	8.47
October (22 days)	7.52	7.79